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ABSTRACT

The purpose of this paper is to provide information regarding the financing of Georgia school facilities in the past, the current method of financing needed school facilities, and possible alternatives for providing the financing needed for school facilities in the future. The methods used and the level of state funding for school facilities in other states allow a comparison of Georgia's Capital Outlay Program to the capital outlay programs available in other states. The responsibility for financing school facilities in Georgia has been shared by the state and local boards of education, using both state and local revenue sources. An examination of the appropriate balance between state and local obligation for capital expenses is a focus of this paper. Additionally, since local school systems vary in their ability to finance school facilities with local revenue sources, alternative formulas are considered for taking that variation into account in the distribution of state capital outlay funds. (Appendices contain data tables and formulas.) (EV)

FINANCING SCHOOL FACILITIES

Governor's Education Reform Study Commission

Education Facilities Committee

November 28, 2000

EXECUTIVE SUMMARY

The Georgia General Assembly adopted a comprehensive statewide program to support the financing of elementary and secondary school facilities in 1977. The Georgia Capital Outlay Program, which was funded for the first time in 1981, remains in effect in 2000. Although the legislation has been amended numerous times since its enactment, the basic features of the original capital outlay funding formula are still intact. No comprehensive revision of the state plan for financing school facilities has occurred since the program was first developed.

Unlike the approaches used in some states for state financial support of school facilities, Georgia utilizes a needs-based system of prioritizing local school facility projects. Each local school system is required by law to submit a five-year plan which describes the system's proposed projects for meeting its facility needs. The plan may be revised as needed by the system, but a new plan must be developed no less frequently than every five years. A statewide compilation of needs is prepared by the Georgia Department of Education, and each school system's needs are expressed in relationship to the total statewide need.

The Governor recommends an "entitlement level" to the General Assembly annually as part of the proposed state budgetary process. The amount of each system's entitlement is based on its needs in relation to the statewide need. A statutory limitation of $100 million for the total annual entitlement amount has been imposed by law since the inception of the Capital Outlay Program, although a second tier of entitlement earnings has also been funded since 1996 for school systems experiencing exceptional enrollment. Entitlements do not represent cash allocations to local school systems. They are credits which a system may accumulate and apply to projects which qualify for participation in the state program.

When a school system chooses to apply entitlement earnings to a qualified project in its five-year plan, it submits an application to the Department of Education. If the cost of the project exceeds accumulated entitlements, the system may apply for "advance funding," and future entitlements are loaned to the system to enable it to complete the project. Entitlements earned in subsequent years are used to repay the advanced funds.

The cost of projects financed in the Capital Outlay Program is shared by the state and local school systems. Each school system must contribute between 10 and 25 percent of the cost from local tax sources, based on its relative local property tax wealth per student. Additional local funding of projects outside the state program may be used to reduce the required local percentage for state-financed projects to 10 percent. At present, the required local portion is 10 percent in 179 systems.

In addition to the adoption of the exceptional growth entitlement program, the General Assembly adopted legislation in 1999 to provide an enhanced level of capital outlay support to low-wealth school systems. The low wealth program terminates in 2002.

An examination of Georgia's Capital Outlay Program reveals that it has been largely success in fulfilling the objective of providing a systematic and equitable method for assisting school systems in their efforts to provide safe and adequate facilities for all students. The law provided for the establishment of common minimum specifications for schools which school systems must meet. The Capital Outlay Program has also institutionalized a planning process in all systems for identifying and prioritizing school facility needs.

Although the Capital Outlay Program has served the state well during its two decades in Georgia law, numerous issues have been identified that should be addressed in an effort to strengthen the program further. Circumstances have changed since 1981, and amendments to the capital outlay formula may be warranted. Among the findings reported in this paper, (1) Georgia's annual enrollment growth is considerably higher than in the early 1980s; (2) inflation in the cost of resources for school facilities over the twenty-year period has reduced the value of the $100 million maximum entitlement level; (3) the opportunity of local boards to seek voter approval of one-percent local option sales taxes creates a new form of local wealth that is not measured in the state formula; and (4) the amount of funds earned per square foot for construction projects in the state formula does not cover current minimum costs, thereby necessitating additional local funding in excess of the required local share.

Several alternatives exist for improvements in each of several facets of the Capital Outlay Program. Each of these alternatives is identified and discussed in the full text of the paper. The broad categories of pertinent issues are as follows.

- Establishment of the annual entitlement level(s)
- Calculation of local wealth and application of the local wealth measure in the capital outlay formula
- Application of additional local funding in the determination of required local funds
- Issues in the definition of local need that have ramifications for the capital outlay formula, including needs of rapidly growing school systems and systems with high concentrations of unhoused students
- Needs of low-wealth school systems
- Options for re-organization of the state Capital Outlay Program

- Inclusion or exclusion of specific facility-related costs in the state program

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INTRODUCTION

The purpose of this paper is to provide information regarding the financing of Georgia school facilities in the past, the current method of financing needed school facilities, and possible alternatives for providing the financing needed for school facilities in the future. The methods used and the level of state funding for school facilities in other states allow a comparison of Georgia's Capital Outlay Program to the capital outlay programs available in other states.

The responsibility for financing school facilities in Georgia has been shared by the state and local boards of education, using both state and local revenue sources. An examination of the appropriate balance between state and local obligation for capital expenses is a focus of this paper. Additionally, since local school systems vary in the their ability to finance school facilities with local revenue sources, alternative formulas are considered for taking that variation into account in the distribution of state capital outlay funds.

Literature Review

A review of the current literature indicates that the methods and levels of state assistance provided vary widely for school facilities in other states. While caution must be exercised in interpreting the data because of the major differences that exist in state laws and the levels of assistance provided, the summary data from some of these studies allows a comparison of the levels of state involvement and the state funds provided per student. In 1995, the U.S. General Accounting Office (GAO) published findings from a study developed to indicate state involvement in the following three areas: (a) funding, (b) technical assistance and compliance review, and (c) data collection on condition of facilities.[1] Of the fifty states and the District of Columbia, "forty-eight states reported participating in at least one of the areas of state involvement in school facilities."[2] However, the GAO study only "characterized 13 states as having comprehensive facilities programs: Alabama, Alaska, Florida, Georgia, Hawaii, Kentucky, Maryland, Massachusetts, Minnesota, North Carolina, Ohio, South Carolina, and West Virginia."[3] A state was only considered to have a comprehensive facilities program if: (a) the state had a framework in place to provide ongoing funding, (b) technical assistance in a variety of areas and compliance review activities were provided, (c) current information on the condition of school buildings was maintained statewide, and (d) one or more staff was employed to work on facilities matters.

Although this study clearly acknowledges that the levels of compliance review and technical assistance provided to school systems vary widely among states, no attempt was made in

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[1] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 5. ,

[2] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 4.

[3] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 5.

the findings to control for the level of involvement (e.g., number of students served, number of systems served, number of projects funded, etc.). Therefore, it should be noted that the staffing levels might not be a good indicator of state's involvement or the level of services provided.

This study also reported that although some of the states had provided one-time appropriations for facilities, the following "ten states had no regular, ongoing program to assist districts with capital construction costs: Illinois, Iowa, Louisiana, Missouri, Nebraska, Nevada, Oklahoma, Oregon, South Dakota, and Texas."[4] Staffing reported for these states ranged from 11 in Illinois to zero or less than one full-time state staff member to provide assistance to school systems in Nevada, Oregon, Louisiana, and Nebraska.[5]

The average annual state construction expenditure per student for fiscal years 1990-1997 in the United States was $473.[6] For the 13 states characterized to have a comprehensive facilities program, staffing levels for facilities-related technical assistance and compliance review ranged from 72 employees in Florida to three and one-half full-time employees in Ohio.[7] At the time the study was conducted, Georgia had a staff of 18 that has now been reduced to 14 full-time employees. In Table I, the average annual state expenditure per student for FY 1990 through FY 1997 for each of the states identified as having a comprehensive, ongoing capital outlay program have been summarized.

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[4] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 9.

[5] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 26-7.

[6] *School Facilities: Construction Expenditures Have Grown Significantly in Recent Years,* (GAO/HEHS-U. S. General Accounting Office, Washington, D. C., March 2000, p. 12

[7] *School Facilities: States' Financial and Technical Support Varies,* (GAO/HEHS-96-27 School Facilities: State Involvement), U. S. General Accounting Office, Washington, D. C., November 1995, p. 26-7.

Table I

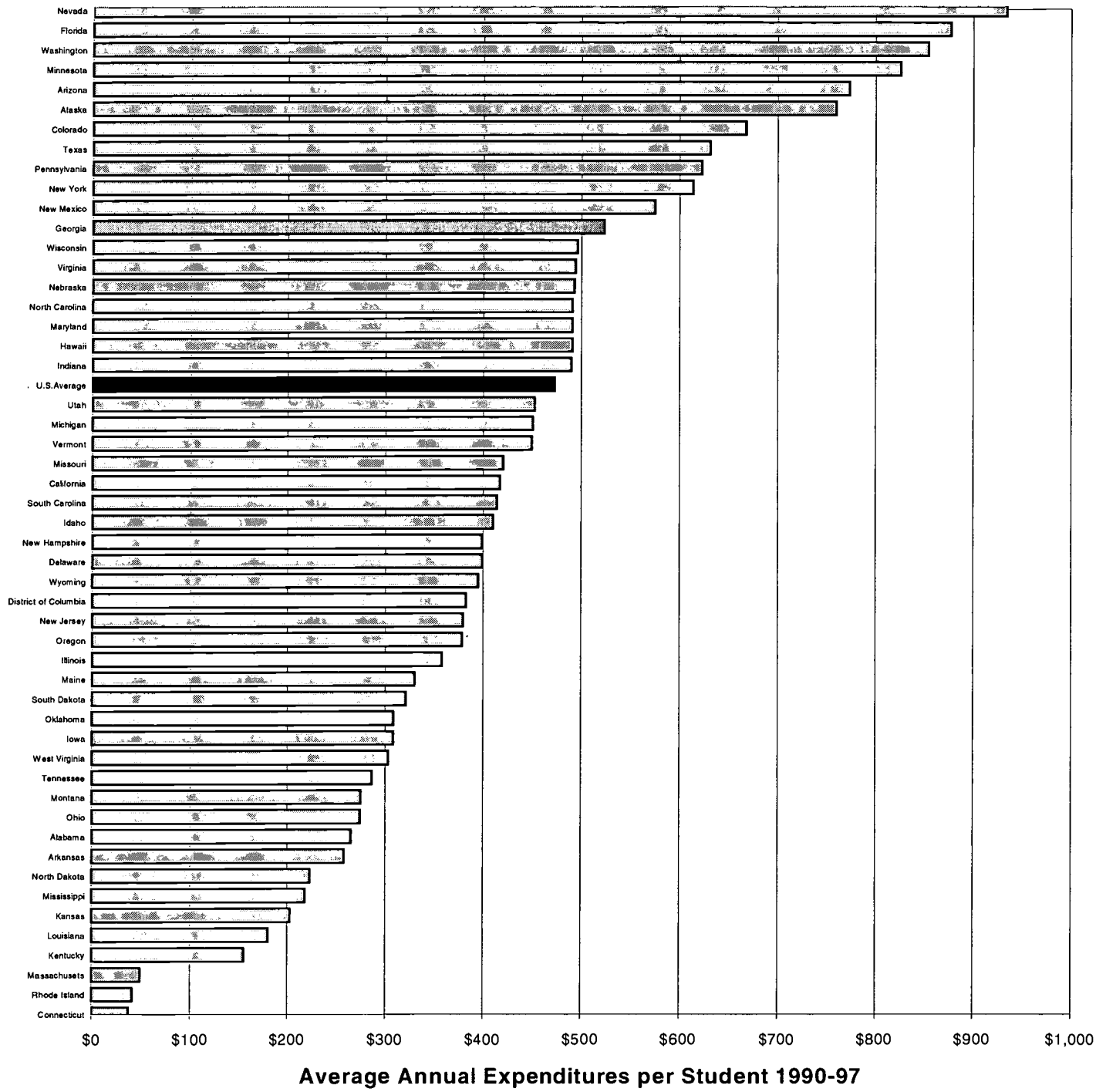
States with Comprehensive Capital Outlay Programs[3]	Total Student Enrollment On or About Oct. 1, 1993[8]	Est. Number of Schools On or About Oct. 1, 1993[8]	Average Annual State Construction Expenditure Per Student 1990-1997[6]	Number of State Facilities Related Staff[8]
Alabama	717,000	1,800	$265	5.0
Alaska	122,000	463	$759	6.0
Florida	1,994,000	2,446	$877	72.0
Georgia	1,227,000	1,766	$523	18.0
Hawaii	180,000	240	$491	18.0
Kentucky	640,000	1,366	$155	11.0
Maryland	771,000	1,254	$491	5.5
Massachusetts	880,000	1,792	$ 49	5.0
Minnesota	803,000	1,548	$825	6.0
North Carolina	1,124,000	1,956	$491	41.5
Ohio	1,807,000	3,600	$274	3.5
South Carolina	634,000	1,130	$414	6.0
West Virginia	319,000	826	$303	10.0
U. S. Avg. Annual Construction Exp. Per Student			**$473**	

Graph 1 provides a perspective of the average annual expenditures per student reported for construction activities by state and for the District of Columbia for FY 1990-1997. As shown on this graph, the average annual state construction expenditure for Georgia students was only slightly higher than the average for all states and lower than the expenditures in 11 states.

Several notes of caution should be observed in interpreting these data. Some states include costs for ongoing maintenance and operation of facilities as "facility costs"; therefore, these dollars may be reflected in Graph 1. Recognition should also be given to the fact that variation in the average state cost per student is influenced by enrollment growth, which also varies considerably among the states.

[8] *School Facilities: Profiles of School Condition by State,* (GAO/HEHS-96-148 School Facilities: State Profiles), U. S. General Accounting Office, Washington, D. C., June 1996, pp. 38-182.

GRAPH I
Average Annual State School Construction Expenditures per Student 1990-1997



Source: U. S. Department of Education, GAO/HEHS-00-41 School Construction Expenditures

Note: In constant 1997 dollars.

How Other States Finance School Facilities

A study prepared by GAO in June of 1996 entitled *School Facilities: Profiles of School Condition by State*,[9] describes how each state funds and manages school construction. The data for this study were collected through two separate data collection efforts. The initial data were collected from a survey sent to a nationally representative sample of about 10,000 schools. The second phase of the data collection consisted of focused telephone interviews with state education agency officials in each state. The data reported show the differences in how each state approaches the problem of providing assistance to school systems in meeting capital improvement needs. This study includes summary data for each state concerning the state's role in: (a) financing capital improvements, (b) providing technical assistance, and (c) collecting facilities data.

The scope of this paper does not permit a lengthy discussion of the differences in how each state provides assistance for capital improvements; however, the state's role in school construction for Alabama, Florida, North Carolina, and Tennessee is described briefly. For additional information concerning the approach, methods, and level of assistance provided, as well as the estimated needs in each state at the time of the study, please refer to the complete document that can be accessed at: http://frwebgate.access.gpo.gov/cgi-bin/multidb.cgi.

Through 1994, **Alabama** provided funding for school facilities through two categories: (1) the Minimum Program Fund that allocated $55 per "earned teacher unit" for capital projects, and (2) the Local Boards Program that provided funds to assist in facilities maintenance based on the earned teacher unit. The state also had issued bonds from time to time as needs were identified. In 1995, the state provided funds to school systems as block grants after a court decision that found the state's school finance system unconstitutional because the flat rate for distributing funds did not consider local ability to raise revenues. The state provides technical assistance to systems in assessing building needs. State personnel review and approve proposed drawings and specifications for compliance with state standards and educational adequacy, and monitor construction activities. The state maintains a building inventory that is updated annually. Each year, school systems are required to respond to a survey to verify and update the data.[10]

Florida has eight financial assistance programs funded from gross tax receipts on utilities and motor vehicle licensing revenue. Two of these programs are based on district growth; another provides funding for maintenance based on square footage, age, and replacement costs; another funds specific projects such as joint-use facilities; and one targets low-wealth school systems. In 1996, Florida's state staffing was cut from 72 to 28 positions, and the state's responsibilities for facilities planning and monitoring was shifted from the state staff to

[9] *School Facilities: Profiles of School Condition by State,* (GAO/HEHS-96-148 School Facilities: State Profiles), U. S. General Accounting Office, Washington, D. C., June 1996.

[10] *School Facilities: Profiles of School Condition by State,* (GAO/HEHS-96-148 School Facilities: State Profiles), U. S. General Accounting Office, Washington, D. C., June 1996, p. 38.

the local school systems. The remaining facilities staff now acts in a consultative role when assistance is requested, implements a training and certification program for building code inspectors of educational facilities, and provides a review of building plans only for systems that cannot afford to pay for these services locally. Florida has a computerized inventory that is updated annually and includes detailed data on sites, buildings, and rooms, including a condition rating. This rating is used in the allocation of maintenance funding.[11]

North Carolina provides assistance to school systems in several programs and uses revenue from a number of fund sources. One program allots some of the corporate income tax revenue collected based on a pro rata share of each system's average daily attendance. In this program, the school systems are allowed to let their allotments accrue until they are ready to provide the required local matching revenue and begin a specific project. Corporate income tax revenue also provides $10 million for grants to low-wealth school systems for critical facility needs. A third program uses state sales tax revenues. Counties can also levy up to two one-half cent additions to state sales tax. The state sales tax revenues are distributed to counties on a per capita basis and may be used for capital outlay or to retire indebtedness incurred for capital improvements. In 1996, North Carolina's staff was reduced from 41.5 to 27 positions. At the time this study was completed, no information was available regarding the services/assistance that would be continued. The facilities staff collects building inventory data during annual inspections of facilities insured by the state (92 percent of all buildings).

Unlike Alabama, Florida, North Carolina, and Georgia, **Tennessee** does not have a comprehensive, ongoing capital outlay program. Any funds for school facilities are allocated through a capital outlay component of its basic education support program based on average daily membership and square footage costs. Local matching funds are required on the basis of local fiscal capacity with the state funding 50 percent of the total statewide need. No staff positions are dedicated to school facility issues and no technical assistance is available from the state. While the State Fire Marshal's Office does review building plans and specifications, no other state review and approval process is in place. The state collects limited or no data with regard to facilities.

Overall, states can be separated into three groups: (1) states with capital outlay formulas that distribute state funds on the basis of identified need; (2) states with formulas that allocate state funds on a per-student basis, without consideration of need; and (3) states with no consistent formula for distribution of state funds. Georgia is among the first group of states.

The lack of any involvement by the state in financing school facilities has been the subject of recent interest in litigation. The state of Arizona, where construction costs were previously a local responsibility, was the defendant in a lawsuit brought by low-wealth school systems. The state supreme court held that since the state constitution established public education as

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[11] *School Facilities: Profiles of School Condition by State,* (GAO/HEHS-96-148 School Facilities: State Profiles), U .S. General Accounting Office, Washington, D. C., June 1996, p. 65.

a state responsibility, the state therefore had an obligation to provide for school facilities in a manner that took into consideration the varying taxing ability of local school systems.

BACKGROUND

Between 1948 and 1962, the major increase in the number of births after World War II resulted in tremendous increases in the number of school age children.[12] This growth in the student population exerted pressure on school systems to provide more and better school facilities as these "baby boom" students entered school. As the pressure for school facilities was becoming critical in the 1950s, litigation involving equity and desegregation issues often made it difficult for some school systems to obtain the voter approval required to provide the local funds needed to renovate and modify existing school facilities or to build new schools. During the Word War II years, "school construction activities were drastically curtailed in all parts of the United States,"[13] and Georgia's schools were no exception. Many of the state's existing school facilities were in poor condition at that time, and financial assistance was needed to renovate and modify existing school facilities, as well as to build the new schools needed to provide safe and adequate school facilities.

In 1951, a statewide survey was conducted to determine the capital improvements needed in each Georgia school system. Commenting on that effort in a historical study reported in 1978, the author states:

> (T)he new Minimum Foundation Program of Education (MFPE) . . . would barely scratch the surface of the backlog of needs much less deal with the needs created by the postwar baby boom and the addition of the twelfth grade. Estimates indicated it would take 75 years to meet the building needs of the 1951-52 school year if the funds were used on a year-to-year basis.[14]

A Historical Perspective – Funding and Constructing Schools 1951-81

To understand the current situation, it is beneficial to have some understanding of previous events that have shaped decisions and to gain insight from a historical perspective. The historical information included in this paper will be limited to a summary of the methods used to assist school systems with capital improvements and the level of state assistance provided in the past.

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[12] *Growing Pains: The Challenge of Overcrowded Schools is Here to Stay*, U. S. Department of Education, National Center for Education Statistics, Washington, D. C., August 2000.

[13] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 8.

[14] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 10.

Georgia Education Authority (Schools)

In 1951, the General Assembly unanimously passed the "Georgia Education Authority (Schools) Act" (O.C.G.A. • 20-2-550 through 582). This act created the Georgia Education Authority (Schools) as a public corporation and instrumentality of the State of Georgia. The legislation gave the Georgia Education Authority (Schools) the power to: (1) issue revenue bonds; (2) acquire property, condemn property or accept title to any property; and (3) execute any instruments, contracts, or leases needed for the management and construction of public school buildings and facilities. The Georgia Education Authority (Schools) remained the administrative agency responsible for assisting school systems with school construction projects from 1951 to 1980.

Under this act, each school system earned entitlement annually based on unhoused students times "$7.50 per square foot, plus ten percent for architect's fees and contingencies, less fifty per cent of the district's local bonding ability".[15] Each school system could elect to receive its entitlement on an annual basis or to contract with the Authority to build its buildings. If the system elected to have the Authority construct needed school facilities, the system's capital outlay allotment was paid directly to the Georgia Education Authority (Schools). The Authority could sell revenue certificates against the anticipated annual income and construct the school buildings for the local school system. Once the revenue bonds were repaid, the title to the school property was then returned to the school system.

From 1951 to 1977, state funding for school construction was primarily limited to those projects needed for consolidation or growth. Seldom were any funds available for renovation or modification of existing buildings. Although a few school systems were fortunate enough to have local funds derived from a trust, endowment fund, or some other specialized source of revenue; the property tax was the only source of local funding available to most school systems. While the local funds needed to complete a small construction project might be included in the annual budget for maintenance and operations, voter approval was required to issue general obligation bonds to obtain the local funds required for larger capital improvement projects. If the voters approved a proposed bond referendum, mills would be levied annually (usually for a period of twenty years) to retire the principal and interest payments on the bonds.

School systems were responsible for lobbying legislators to obtain state funds for any school construction projects. If the General Assembly authorized state funds for a project and the Authority was to construct the building(s), the school system was then required to transfer title for the school site to the Georgia Education Authority (Schools). When the title was transferred, the Authority became responsible for the management and/or the performance of all required design and construction activities until such time as the construction project was completed. Once the project was completed, there was also an option whereby the

[15] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 10.

system could lease the facility from the Authority for an amount to be determined from year to year for a period not to exceed 50 years.[16]

With the sudden increase in the number of students to be served, combined with the need to desegregate schools and the addition of the twelfth grade in high schools, it became even more important for schools to be built as quickly and economically as possible. While the term "prototype" was not used to describe the typical design of most schools constructed in the 1950s and 1960s, the vast majority of the schools looked alike with a double or single loaded corridor, a flat roof, and window walls. Since energy was plentiful and cheap, the flat roofs had little or no insulation and the window walls provided a means of ventilating buildings with no centralized air conditioning. The heat-gain and heat-loss from window walls and roofs without insulation did not begin to present major problems for school systems until years later when costs of energy increased dramatically and energy conservation became an issue.

During the 1960s, a second building program was authorized and an appropriation of approximately $5.5 million dollars was used to fund the program. The annual allotment to school systems was raised from $200 to $250 per state-allotted teacher. Growth allotments in the amount of $18 per student were provided for increases in average daily attendance that had occurred since the 1951-1952 school year. However, school systems were required to have no less than 50 percent of their bonding capacity outstanding or match the state funds on a dollar-for-dollar basis in order to access the growth funds. "Policy changes in the implementation of this 'second building program' formed the basis for the allocation of school construction funds until 1977."[17]

Legislation Creates Georgia's Capital Outlay Program in 1977

In 1976, a task force composed of 26 educators and private citizens was created by the Governor to identify ways to use education resources for the greatest benefit of Georgia's children.[18] The Governor's Task Force on Education spent a great deal of time considering the problems related to educational facilities. In 1977, the General Assembly passed HB 905 to implement many of the recommendations made by the Governor's task force, and the Governor signed the bill into law in March of that year.

The new law required each school system to complete a long-range comprehensive survey of its projected capital improvement needs before the end of an initial seven-year period, then at least once every five years to participate in the program. Funding provided under the Capital Outlay Program could be used for the purpose of constructing, renovating, altering,

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[16] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 11.
[17] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 11.
[18] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 14.

replacing, enlarging, or consolidating instructional facilities.[19] Except for the amendments to the law that are discussed later in this paper, the provisions of the Capital Outlay Program that were enacted into law in 1977 are still in effect. (For more information regarding the provisions of the Capital Outlay Program, please refer to other position papers prepared for and presented to the Governor's Education Reform Study Commission.)

The Transition Period 1977-1981

During the period between 1977 and 1981, when funding was provided for the first time to implement the new Capital Outlay Program, the General Assembly appropriated state funds to assist school systems in renovating existing buildings. Only one project per school system with a maximum cost of no more than $250,000 was allowed in any one year. In addition, the construction costs for a renovation project could not exceed 60 percent of the estimated cost for a new school. To qualify, a renovation project was required to improve the quality of the existing facility so as to extend its use in an adequate condition for at least fifteen years or more. The $250,000 renovation grants were allocated by congressional district.

Funding for School Construction 1951-1980

Table II in Appendix A was developed from the archived records maintained by the Georgia Department of Education. These data show the level of state funds available to each Georgia school system during the period from 1951 to 1980. As shown on this table, a total of $831,523,166 in state funds was made available to Georgia's school systems for school construction activities during this period. This amount includes funds appropriated for elementary and secondary public schools (serving grades from one through twelve), as well as Vocational Trade Schools, the return of Depreciation and Hazard Reserve funds to school systems, and the renovation grants authorized for selected school systems during the period from 1977 through 1980.

Georgia's Capital Outlay Program 1981 – Present

While Georgia's Capital Outlay Program was enacted into law in 1977, state funding to implement the program was first appropriated in the FY 1981 Appropriations Act (as amended). Over the years since the law was first passed, there have been some significant amendments to the Capital Outlay Program legislation. However, the amendments to the law have not made major changes to the manner in which the original Capital Outlay Program is financed or in the determination of how local school systems qualify for participation. Summaries of the most important changes included in the amendments enacted since the original legislation was passed are provided later in this paper. The amendments having the greatest effect on funding levels for the Capital Outlay Program

[19] McGuffey, Carroll W., *An Analytical Study of the State Capital Outlay Program in Georgia,* Georgia School Finance Study, Athens, Georgia, 1978, p. 15.

include the addition of the Incentive Advance Funding Program in 1985, the addition of the Exceptional Growth Program in 1994, and the addition of the Low-Wealth Program in 1999.

Major Objectives of the Capital Outlay Program

The major purpose of Georgia's Capital Outlay Program is to provide a systematic and equitable method for assisting school systems in their efforts to provide safe and adequate school facilities for all students. The long-range planning required for participation in the Capital Outlay Program is intended to ensure that school systems: (a) identify what their capital improvement needs are, (b) determine the most appropriate course of action to meet those needs, and (c) set priorities for funding and completing the projects. Detailed information has been presented in the position papers provided to the Governor's Education Reform Study Commission or to its facilities committee previously. For more information, please refer to these reports for more specific information.

Common Minimum Specifications

The current law requires the State Board of Education to adopt policies, guidelines, and standards (O.C.G.A. §20-2-260) and to establish common minimum facility requirements that each public school facility must meet before being used for any component of the educational or recreational program of that school (O.C.G.A. §20-2-261). The requirements stated in the law and the common minimum specifications adopted by the State Board of Education determine the projects that will be eligible for funding and the level of state participation that will be allowed for eligible activities.

Entitlement Earnings

Each school system is eligible to earn entitlement (a paper credit) annually under the Regular Capital Outlay Program. School systems qualifying under the Exceptional Growth Program earn additional entitlement annually based on the average increase in full-time equivalent (FTE) students over a four-year period. Exceptional Growth Program entitlement earnings may only be used to construct additions at existing schools or to build new schools. In both the Regular and Growth Programs, school systems may elect to allow the entitlement earned to accrue until such time as the system is ready to complete the next project identified in priority order in the system's facilities plan, or it may opt to submit an application. If the system chooses to submit an application for the purpose of completing the next project in its facilities plan, all or a portion of the system's entitlement earnings (paper credit) are converted to real dollars to be expended on the project identified in the application.

If a school system has qualified and submitted an application requesting advance funding (a loan against future entitlement earnings), the school system becomes ineligible for any additional state funding under the Regular Capital Outlay Program until such time as the advance funding loan has been repaid. Currently 132 school systems have advance funding balances to be repaid with future entitlement earnings. Entitlement earned under the Exceptional Growth Program cannot be used to repay the advance funding loan.

Table III in Appendix A shows the annual entitlement earned by each school system for the period from 1981 through 2001. The data recorded as the entitlement earned by school systems in FY 1982 reflect the combined entitlement earned by systems for FY 1981 and 1982. The total **regular** entitlement earned by all school systems since 1981 is $1,861,969,482. Table IV in Appendix A reflects the total entitlement earned by each school system from 1982 through 2001, less the accrued entitlement each system had (if any) after the FY 2001 Applications had been funded. The difference between each system's entitlement earnings and the system's accumulated entitlement (if any) represents the amount of state funds appropriated to date for Regular Capital Outlay Projects. However, the amount of state funds appropriated does not include the amount funded for Advance Funding Projects (Regular Advance and Incentive Advance) that still have outstanding balances to be repaid from future entitlement earnings under the Regular Capital Outlay Program.

As shown on Table V in Appendix A, the total **growth** entitlement earned by eligible school systems since 1996, when the Exception Growth Program was first funded, is $521,776,368. As shown on Table VI in Appendix A, the total growth entitlement earnings, less the accumulated growth entitlement after the FY 2001 applications of $120,168,029 had been funded, equals the actual amount of $401,598,339 in state funds appropriated since FY 1996.

The Application Process

At the beginning of each fiscal year, each system must decide if:

(a) it will submit an application to use the entitlement earned to complete the next priority in its facilities plan, or

(b) it will allow their entitlement earnings to accumulate until sufficient entitlement and required local matching funds are available to complete the next priority in its facilities plan.

Each system's required local participation in an application is based on the system's wealth per full-time equivalent (FTE) student. No school system's required local participation will be more than 25 percent or less than 10 percent of the state approved construction costs. A school system may decrease its required local participation in an application by using its eligible annual bond debt service payments (principal and interest) to reduce its required local amount to, but not below, 10 percent of the state approved construction costs.

Capital Outlay Program Funding Categories

Currently, there are five different active categories of funding under which school systems may submit applications. Four of these funding categories are under the Regular Capital Outlay Program. Cash or state bond revenue has always provided the revenue for projects

funded under the Regular Program funding categories, and lottery revenue has been used to fund projects under the Exceptional Growth Program funding category. A brief description of the purpose for each of the different funding categories follows.

The Regular Capital Outlay Program Funding Categories

- **Regular Funding Category**

Annually, each local school system earns entitlement to state funds for the eligible construction projects identified in its local facilities plan. Entitlement funds are earned by calculating the needs of the local system in relationship to total state facility needs. A local school system's total facilities needs are based on the sum of: (1) the eligible construction needs included in its current local facilities plan, and (2) the eligible principal and interest payments on local bonds for the five-year period corresponding to the system's plan. The regular funding formula shown in Appendix B is used to calculate each local school system's annual entitlement earnings. Annually, each school system must make a decision whether to allow its entitlement earnings to accrue or to submit an application for funding.

- **Regular Advance Funding Category**

The Regular Advance Funding Program works much like a long-term no interest loan. This funding category was specifically designed to assist smaller school systems. A system is eligible to apply under this category only if the amount of state funding requested (after any accumulated entitlement has been deducted) exceeds the system's expected entitlement earnings for at least three more years at the $100 million authorization level. Once a project has been funded under this category, the school system becomes ineligible to submit another application under the regular program until the state funds advanced have been repaid from the entitlement earned by the system in subsequent years. Project costs are not deleted from the system's plan until the advance funding has been repaid. Required local participation under this funding category is the same as under the regular funding category.

- **Merger Funding Category**

Funding is provided under this category for the construction of facilities needed when two or more adjoining school systems agree to:

- merge the total operations of the school systems involved — e.g., a city system with a county system, or

- consolidate two or more elementary, middle, or high schools into a single school that meets or exceeds the minimum school sizes or represents 100 percent of the student population for those grade levels in all systems party to the consolidation.

Funding under this category is provided in much the same way as regular advance funding.

However, under the merger funding category: (a) no local matching funds are required, and (b) no more than three years of combined future entitlements from the participating systems are required to offset the funding advanced for the merger projects.

- **Incentive Advance Funding**

The incentive advance funding category was added to the existing Capital Outlay Program when the Quality Basic Education Act was passed in 1985. The purpose of this funding category was to provide funding for systems that were operating schools below the minimum size recommended and/or were not in the K-5, 6-8, 9-12 organizational pattern recommended in the QBE Act. A total of 87 school systems qualified for incentive advance funding and became eligible to submit applications for those projects that were needed to accomplish the planned consolidation and/or the reorganization of schools within the system. Only those school systems with plans approved prior to July 1, 1992 that included projects qualified for incentive advance funding continued to be eligible to submit applications for funding under this category. The law allowed these systems to continue submitting applications for no more that two qualified projects per year until funds were provided for all of the projects qualified for incentive advance funding. As discussed later in this paper in the section describing major amendments to the law, the limitation of a maximum of two projects per year was amended in 1998, and state funds were appropriated in FY 1999 for the final projects eligible for funding under the Incentive Advance Funding Category.

- **Low-Wealth Program Funding Category**

In 1999, legislation was enacted to create the Low-Wealth Program of state funding to assist school systems with low property, sales, and per capita income wealth to meet capital outlay needs. State funds were appropriated to fund the first eligible construction projects under the Low-Wealth Program in the FY 1999 Appropriations Act (as amended). All of the funds provided to school systems qualifying for funding under this program to date have been derived from the sale of state general obligation bonds.

To be eligible for the program, a school system must have less than 75 percent of the state average on each of three wealth measures. These include property wealth per student, sales tax wealth per student, and per-capita income wealth. A minimum operating levy is required, and the system must have an existing local sales tax or bonded indebtedness. Also, the system must have at least one year of payments remaining on advance funding in the state Capital Outlay Program.

The Exceptional Growth Program Funding Category (financed with lottery receipts)

The regular capital outlay entitlement program was originally developed during a period when student enrollment was stable or declining slightly in Georgia (for the state as a whole). As the public school student population began to increase rapidly, many school systems were unable to obtain sufficient state and local funds to construct the classroom additions and new

schools that are required to provide adequate facilities for their students. To assist school systems that were experiencing growth, legislation was enacted in the 1994 session of the General Assembly to create the Exceptional Growth Program. This program is designed to increase the amount of state entitlement available to school systems experiencing growth. Exceptional Growth Program funding can only be used to construct new classrooms at existing schools or to construct new schools.

In 1996, the Exceptional Growth Program legislation was amended to make the criteria to qualify for Exceptional Growth Program entitlement earnings more stringent and to prohibit the submission of applications for construction of less than three instructional units. Beginning in FY 1998, only those school systems with a calculated enrollment increase of 65 students or more a*nd* a rate of growth of 1.5 percent or more were eligible to earn entitlement under the Exceptional Growth Program. If needed, school systems may combine Exceptional Growth Program entitlement with other state and local funds to ensure that all of the construction activities needed at a school can be accomplished simultaneously.

In FY 1996, lottery funds were appropriated to provide the funds requested in the first applications submitted under the Exceptional Growth Program. Lottery funds were also appropriated to provide the funding requested by school systems in the FY 1997 through FY 2001 Exceptional Growth Program applications.

Annual entitlement earnings under the Exceptional Growth Program are based on each eligible school system's growth in relationship to the growth experienced by all eligible school systems. The mathematical formula (as amended in 1996) which is used to calculate each school system's entitlement earnings annually under the Exceptional Growth Program is included in Appendix B.

Local Funding Required for Capital Improvements

The responsibility for funding for K-12 school facilities in Georgia is shared by the state and local boards of education. The state Capital Outlay Program has never purported to satisfy all facilities needs in the state, nor did the previous program funded under the Georgia Education Authority (Schools) Act. Facility projects funded with revenue from state tax sources have never been sufficient to house all public education students in Georgia, even with the authority of the state to incur long-term debt through the issuance of general obligation bonds. For many reasons, therefore, local revenue sources are necessary to fulfill facility needs, and in some school systems, the bulk of facility costs have been paid from local funds. Generally, local revenue is derived from property taxes and Special Purpose Local Option Sales Taxes (SPLOST). The sale of bonds, when authorized by voters in local elections, provides cash for construction projects that can be repaid either by property taxes (long-term) or sales taxes (short-term).

Local funds for facility projects fall into three principal categories:

- the required local portion of projects that qualify for state funds;

- additional local costs which school systems find necessary in order to construct facilities that meet the standards and expectations of local boards of education and their communities, and/or to provide for enrollment growth that necessitates more schools than can be constructed through the state Capital Outlay Program, given the level of state funding; and

- expenses for several facility-related items, as well as facilities for specific programs and functions, that are not covered by the state Capital Outlay Program.

The state Capital Outlay Program includes a formula for determining the amount of funds in each qualified project that must be paid locally. With few exceptions, no project is financed entirely with state funds. The formula includes a factor for taking into consideration the relative local property wealth per student of each school system.

The state program identifies amounts per square foot for schools housing students in different grade levels. At present, the state formula provides $49 per square foot for elementary schools, $51 per square foot for middle schools, and $53 per square foot for high schools. When school systems make the decision, either by necessity or by choice, to expend higher amounts per square foot, the excess costs must be paid from local funds. These "additional local funds" are spent in addition to the required local portion of the costs that are covered by the state formula. Furthermore, the school system may opt to include features in the school design that are not included in the state Capital Outlay Program. Almost always, the combination of the state-funded amount and the required local effort has been insufficient to accomplish the full cost of the local system's plans for a project. In most cases, the expenditure of additional local funds is essential in order to comply with other state rules and to complete facilities that meet minimal quality standards.

Typically, school systems find it necessary to exceed the state amounts per square foot in order to maximize sustainability over time, enhance energy efficiency, and curtail maintenance and repair expenses over the life of the building. Systems also take into consideration the physical quality of the learning environment in enhancing student performance, and may conclude that it is important to provide more expansive spaces than minimal requirements, and/or rooms for instructional activities that are not required by the state.

Examples of facility-related expenses which are not covered in the state program include the cost of acquiring school sites and utilities to service these sites, expenses to provide access to the sites, most non-fixed equipment and furnishings, and most other expenses outside the footprint of the building. These expenses must be paid totally from local revenues. Current law also specifically excludes from state funding several programs and activities that require capital expenditures. Examples of excluded programs and functions are pre-kindergarten classrooms, psycho-educational program facilities, housing for transportation services,

central administration offices, and athletic facilities that are not intended to be used primarily for physical education classes.

Local Matching Funds Required for State Funded Capital Outlay Projects

The present capital outlay statute requires each local school system to participate in each approved project by contributing between 10 and 25 percent of the approved state project as its required local effort. The required local effort percentage is calculated on the basis of the state maximum allowable amount for the cost of the project, and does not include additional local funds expended above the required amount. Such additional local funds may cause the overall local percentage to be considerably higher than the formally-calculated required local effort needed to qualify for state funding.

The percentage of each system's required local effort is initially determined by dividing its adjusted taxable property wealth per FTE student by the state average property wealth per FTE student, then multiplying the result by 0.25. The resulting value is labeled the "local ability ratio." Appendix C provides the calculation of the current local ability ratio for each school system. If the 25-percent and 10-percent limits were not imposed, 49 school systems would have local ability ratios in excess of 25 percent at present. In these systems, the required local portion is capped at 25 percent. Four systems would presently have ratios below 10 percent without the state-imposed floor. The local ability ratio in these systems is increased to the 10-percent minimum.

However, the Capital Outlay Program law provides for a reduction in the required local percentage for school systems that have bond debt service obligations for locally-financed capital projects that would have been eligible for inclusion in the state Capital Outlay Program. Seventy-five percent of allowable bond debt service credit contained in the system's bond records may be used to reduce a system's local ability ratio to a level that is not lower than 10 percent. Bond debt service credit is accrued when a local system uses local funds exclusively to finance a project that is in the Local Facilities Plan while the system is earning state entitlement. Bond debt service credit can also be earned for legitimate eligible expenditures on furniture and equipment.

The reduction in the required local portion is also affected by any local revenues derived from the system's maintenance and operation (M&O) millage that are spent on capital projects, if the projects are eligible for approval in the state program. The provision for reduction of the local ability ratio was based on the rationale that local expenditures to meet legitimate needs would have otherwise been a state responsibility if the local funds had not been expended; therefore the system is entitled to receive an adjustment in its required local effort.

At present, all but one of the 180 systems have been able to apply sufficient amounts of local funds from one or both of these types of credit to allow them to reduce the required local effort to 10 percent. As a result, the state formula no longer differentiates, in practice, on the basis of any measure of local wealth. Furthermore, the opportunity to use bond debt service

credit to reduce the required local percentage has never been available to systems with local ability ratios that did not exceed 10 percent, based on the initial calculation.

Additional Local Funds Needed for Capital Improvements

Several circumstances may cause a local board of education to conclude that it cannot rely solely on the state Capital Outlay Program to meet all of its facility needs, and therefore that it must devote additional local revenue to accomplish its objective.

If a school system has earned entitlements that are insufficient to fully construct a new school, it usually is not practical to construct a part of the school. If a portion of the project is not eligible for inclusion in an application for participation in the state program, or if the system is not able to apply for advance funding, the local board of education may conclude that its only option is to commit additional local funds (above the required local portion) in order to complete the project.

Rapidly growing school systems commonly need to construct many more new schools than they can expect to build through the state Capital Outlay Program, unless they delay the construction of those schools until long after they are needed to house the increased enrollment. As the number of new students continues to increase, the number and percentage of unhoused students would increase unless the system uses additional local revenue to provide additional classrooms and entire schools in a timely manner. In systems experiencing significant growth, more classrooms may be constructed with additional local revenue than with the combination of state and required local funds.

In another group of school systems, state funds constitute the overwhelming share of school facility costs. These systems may or may not be experiencing growth, and they may vary in the number of unhoused students (i.e., students in temporary or deficient classrooms, or students attending double sessions). The low proportion of local funds may signify a paucity of needed construction, but in many systems it is a function of very limited local tax bases – using either property tax, sales tax, or both.

Local Funding Sources

Property taxes and Special Purpose Local Option Sales Taxes (SPLOST) are the only major sources of local revenue available to school systems for financing school facilities. Donations or special fund sources such as athletic revenue may also be used, but these sources constitute an insignificant share of the total local cost. Prior to the availability of the one-percent local sales tax in 1997, the property tax was the only source of tax revenue available to most systems, a fact that continues to be true for local revenue to support operating budgets.

Bonds may be sold to generate large amounts of revenue quickly. The bonds must be repaid, with interest, using property tax or sales tax receipts. If a board of education seeks to sell bonds, it must secure the approval of voters in a referendum. A traditional bond referendum authorizes a school system to incur long-term debt (usually 20 years) which is paid with property taxes, using a bond millage rate that is separate from the tax rate for school operation. A SPLOST referendum may or may not also involve a request for voter approval of the sale of bonds. If bonds are sought and approved, they are generally short-term bonds retired with the proceeds of the local sales tax (which cannot be collected for more than five years without subsequent voter approval for an extension of the sales tax).

For general obligation bond revenue or for SPLOST revenue, the purposes for which the funds are to be used must be spelled out in a public notice prior to the election. In a SPLOST referendum, the estimated amount of revenue to be collected must be defined, and when that amount has been collected, sales tax collections cease unless an extension has been voted. Bonds may not be issued as part of a SPLOST referendum without formal voter approval to do so, nor may previous bond debt be paid off with projected SPLOST revenue without formal voter approval.

In the past four years, the infusion of revenue from local sales taxes has had the most significant impact on reducing construction needs in Georgia school systems. Since the first SPLOST referenda were passed in March 1997, the sales tax revenue estimated to be available to these school systems over the specified period of the SPLOST is $6.3 billion. Of this amount, almost $5.1 billion is planned for construction and $1.26 billion is to be used for retiring bond debt.

Most systems seldom use funds derived from their operating millage rates for major capital expenditure projects. Some systems fund most or all of certain expenses, such as furniture and equipment, with maintenance and operation revenue. Generally, taxpayers are more willing to fund major capital expenditures using long-term bond issues than from current property tax revenue. Although present law allows the earning of state capital outlay entitlement for eligible bond debt service credit from long-term bonds, short-term bonds repaid by SPLOST receipts or short-term notes are not eligible for bond debt service credit or entitlement earnings.

Major Amendments to Capital Outlay Program Legislation

Since 1977, when the original Capital Outlay Program legislation was enacted, there have been numerous amendments to the law. A summary of the major amendments to the Capital Outlay Program is provided to reflect the changes that have been made in the original legislation over time.

The law was first amended in 1981. The first amendments to the law were designed to correct errors and omissions in the law and authorize the first allocation of funds to implement the program.

The 1985 amendments to the law moved the existing provisions of the Capital Outlay Program into the new Quality Basic Education Act. An amendment to the Capital Outlay Program added the Incentive Advance Funding Program to the original funding categories previously authorized in the law. The Incentive Advance Funding Program was designed to provide the funding needed and incentives for school systems to consolidate small schools and reorganize to the recommended K-5, 6-8, 9-12 organizational pattern.

The 1987 amendments limited funding under the Incentive Advance Funding Program to no more than two eligible projects per year. Previously, no limitation to the number of incentive advance projects to be funded each year had been included in the law.

The 1991 amendment was written to prevent school systems from receiving any state funding for any project to consolidate a high school if the voters had failed to approve a local bond referendum to provide local funds for that purpose. This amendment was written to prevent school systems from continuing with plans to consolidate high schools if a majority of the qualified voters participating in the proposed referendum had rejected the proposal.

The following five major amendments to the Capital Outlay Program legislation were made in 1992:

- Bryan and Laurens Counties were granted sparsity status and an exemption from meeting minimum school sizes because of geographical barriers.

- Public hearing requirements were added if a school system planned to close a school.

- Additional school systems would not be allowed to qualify for funding under the Incentive Advance Funding Program after July 1, 1992.

- The minimum school size for participation in the Capital Outlay Program was reduced for elementary schools from 450 to 200 full-time-equivalent (FTE) students, for middle schools from 624 to 400 FTE students, and for high schools from 970 to 500 FTE students.

- School systems involved in litigation concerning consolidation of schools or where a bond referendum had failed could not use state or local funds to proceed with the consolidation until all public hearing requirements had been satisfied.

The 1994 amendments added the Exceptional Growth Program to the existing program. This program was designed to provide a second tier of funding for school systems experiencing growth. The public hearing requirements for school systems planning to consolidate schools were strengthened, and the school size criteria for receiving Incentive Advance Program funding were reduced to the minimum levels included in the 1992 amendments.

In 1996, amendments were enacted to make the criteria more stringent for qualifying to earn Exceptional Growth Program funding. The original legislation allowed any school system experiencing growth to qualify for growth funding. The amendments limited participation to school systems experiencing average growth of at least 65 FTE students and an average annual rate of growth of at least 1.5 percent over the four-year period designated by law. Requirements for funding historic landmarks were added in the 1997 amendments to the law. The amendment allowed school systems to earn entitlement and request funding for up to one hundred percent of the cost of constructing a new facility to be used instead to renovate an eligible historic landmark. To qualify for funding under the Capital Outlay Program, the building was required to be listed on the Historical Register prior to the time the amendment was first proposed in 1994. In addition, legislation was enacted to implement a 1996 amendment to the Georgia Constitution. That amendment permits local boards of education to utilize revenue derived from a one-percent Special Purpose Local Option Sales Tax (SPLOST) for capital outlay projects or repayment of outstanding bond debt if the qualified voters in the system approve the local sales tax in a referendum. The constitutional amendment gives school systems the ability to access local funds from a source other than property tax. The first SPLOST elections were held to obtain voter approval in March 1997.

The amendment enacted in 1998 removed the limitation for funding no more than two Incentive Advance Funding projects per year. Only one school system qualifying for Incentive Advance Funding before July 1, 1992 had any eligible projects remaining to be funded. In FY 1999, funds were appropriated for the remaining six projects eligible for funding under the Incentive Advance Funding Program.

The 1999 amendments created the Low-Wealth Program (O.C.G.A. §20-2-262) and imposed requirements for local boards of education to publicly advertise and award public school construction contracts through an open and competitive process. The Low-Wealth Program is designed to provide funding for school systems with low property and sales tax wealth per FTE student and low per-capita income. In addition, the school system must levy at least 12 local mills for school operation, have an outstanding Advance Funding balance that will require more than one year to repay, and have either bonded indebtedness or a Special Purpose Local Option Sales Tax. The legislation creating this program includes a provision for automatic repeal on June 30, 2002.

The amendments enacted in House Bill 1187 during the 2000 session of the General Assembly will have a significant impact on capital outlay needs. The "A Plus Education Reform Act of 2000" will:

- change instructional program requirements,
- reduce teacher/pupil ratios, resulting in the need for additional classrooms,
- require school systems to give priority to elementary school construction projects,

- remove some restrictions for funding historical buildings, and
- permit renovation activities to be funded more than one time.

In addition, the provisions in House Bill 1079, also enacted into law during the 2000 session of the General Assembly, pertain to the procedures by which all governmental agencies enter into public works construction contracts and will have a tremendous impact on the way school construction projects are administered.

FINDINGS

- Georgia's utilization of a state capital outlay structure that is based on identified need has served the state well since its inception almost 20 years ago. The state program compares favorably against most other states in both the level of state support for school facilities and in the equity features of the formula. Although an allocation based on a uniform amount of earnings per enrolled student would simplify the formula for distributing state capital outlay dollars, it would fail to target available state dollars where they are most needed.

- The original regular entitlement levels in the Georgia Capital Outlay Program were established when the law was first funded in 1981. When fixed dollar amounts are established in law, the General Assembly is faced with the task of legislating annual or periodic updates to the dollar amount if it desires to reflect changes in costs over time. No update has ever been approved for the regular entitlement level. With no inflationary adjustment, the maximum amount of entitlement has, in effect, decreased as costs increase. In 2000, $100 million does not buy what it did in 1981. Furthermore, the original selection of $100 million as the maximum annual entitlement level was regarded as sufficient to accomplish all of Georgia's facility needs over a ten-year period. However, the maximum entitlement amount was adopted at a time when the state had a stable enrollment statewide.

- The establishment of a second entitlement program in 1996 created an additional level of entitlement earnings for growing school systems. For these systems, the new program addressed the difficulty caused by the lack of an inflationary adjustment in the regular entitlement program. However, the exceptional growth program was not adopted in the context of an overall, systematic review of the state Capital Outlay Program, and did not have any impact on systems with facility needs that are not related to rapid growth.

- A new formula was adopted in 1999 to address the needs of low-wealth school systems. The rationale for the new program was similar, in one sense, to the rationale used in support of the exceptional growth program. Both new formulas reflected the view that the existing regular entitlement program did not adequately address the needs

of two groups of school systems. Like the enactment of the exceptional growth program, the low-wealth program was adopted without a general re-examination of Georgia's capital outlay plan.

- The premise is widely accepted that current earnings per square foot in the Georgia capital outlay formula do not reflect current construction costs. Although construction costs are not the focus of this paper, the amount earned per square foot is pertinent to a discussion of the appropriate determination of the required local share for state-supported projects. When the cost of even the most basic school facility exceeds the amount earned in the formula, there is a second tier of necessary local funding that is not observable in an examination of the formally-established percentage of required local funds.

- School system wealth in Georgia is based on equalized adjusted assessed valuation of taxable property per full-time equivalent student -- for both the capital outlay formula and the core Quality Basic Education formula for school operation. However, there are differences in the specific data elements used to define both property values and student counts. In the interest of simplification, the state may wish to consider whether there are reasons to continue these differences in the calculation of property wealth per student.

- Property wealth per student was established as the measure of school system financial ability at a time when the property tax was the only significant revenue source available at the local level to boards of education. This condition continues to be true for local tax revenue to support the ongoing operation of schools, but it no longer applies to local revenue raised to finance facility projects. When a one-percent local option sales tax became available to local boards of education for school construction purposes, variation in the capacity to produce sales tax revenue per student became a legitimate issue in the determination of local wealth. Many school systems are using local sales taxes as their only local revenue source for facility projects, and most systems now rely on sales taxes more heavily than property taxes for capital outlay purposes (see p. 27-28, 2nd paragraph under "Discussion"). To date, however, sales tax wealth has not been included in the definition of wealth used to distribute state capital outlay dollars.

- The state capital outlay formula uses a need-driven factor (bond debt service or other locally-funded facility expenditures) to modify the impact of the wealth factor that was intended to differentiate among systems in the percentage of required local funds that must be applied to a state-funded project. As a result, virtually all school systems in the state have the same proportions of state and required local funds for each project funded in the Capital Outlay Program. This interaction between need and wealth is defensible if it can be demonstrated that high wealth and high need are perfectly correlated. Although there is a tendency for high-wealth systems to also be more likely to experience rapid enrollment growth, there are many exceptions; therefore, there is no perfect correlation between the two variables. The state may wish to consider

alternatives for dis-associating need from wealth in determining the proportion of required local effort in each system.

- The opportunity to participate in advance funding has enabled many school systems to complete projects in a more timely manner than would have been possible without advance funding, but these systems are often prevented from accessing state support to meet other needs for many years. If the systems have meager local tax bases, they may have no means to accomplish the unmet needs.

ALTERNATIVES

In the ensuing discussion of alternatives that may be considered for various facets of the Georgia Capital Outlay Program, it should be noted that there are many dimensions to the formula, each with its own set of potential alternatives. This paper identifies several alternatives for each component of the structure for funding school facilities. The alternatives are not always mutually exclusive. Within each set of alternatives, two or more may complement each other and could be selected together.

The process of selecting one or more alternatives for each facet of the program creates the potential for hundreds of combinations that could be selected in devising an overall capital outlay formula. No attempt is made here to develop a set of alternatives for the comprehensive revision of the Capital Outlay Program by assuming the selection of certain combinations of alternatives from the various sub-issues.

Alternatives for Establishment of the Annual Entitlement Level(s) for Participation in the State Capital Outlay Program

- Make no change from existing entitlement levels ($100 million maximum for the regular entitlement program, $100 million maximum for the exceptional growth program).

- Retain two separate entitlement programs, but increase the maximum allowable annual entitlement level. Continue to express the maximum as a dollar amount.

- Retain two separate entitlement programs, but express the maximum allowable annual entitlement level for each program as a percentage of defined statewide need.

- Establish a single, comprehensive entitlement program with $200 million as the maximum allowable annual entitlement level (the same as the total for the two existing separate programs).

- Establish a single, comprehensive entitlement program with an increase in the total maximum allowable annual entitlement level (i.e., an amount in excess of $200 million).

- Establish a single, comprehensive entitlement program with a maximum allowable annual entitlement level expressed as a percentage of defined statewide need.

- Complement the annual entitlement level(s) with special one-time appropriations as needed over time to implement changes legislated in Georgia's program of public education.

- Remove the definition of $100 million as the maximum allowable annual entitlement from the law and permit the Governor to recommend the entitlement level before each budget cycle or for some specified period of time (2-5 years).

Discussion

It may easily be discerned from the above list that there actually is an infinite number of sub-alternatives. For example, with either of the two alternatives that involve increasing the stated maximum dollar amount for the allowable entitlement level, a range of options exist for the extent to which the dollar amount would be raised. Similarly, if the decision is made to express the maximum entitlement level as a percentage of defined statewide need, the percentage could equate to the current dollar amount, or it could be a higher or lower percentage.

A decision on the maximum entitlement level will have strong ramifications for deliberations on other aspects of the Capital Outlay Program. For example, if a decision is made to retain the existing maximum amount of total dollars for the annual entitlement level, then any revision to the definition of need, wealth, or other local variable would result in a shift of available state dollars from some school systems to others. If, however, a higher overall entitlement level is proposed, modifications to the funding formula would not necessarily involve the redirection of funds from some school systems to others.

It should be noted that even in the regular entitlement program, enrollment growth has an influence on need. The enactment of the exceptional growth program was based on the premise that not enough weight was placed on growth in the regular program.

As long as inflation exists in the U.S. economy, the practice of expressing the maximum entitlement level as a fixed dollar amount is problematic. The General Assembly could attempt to establish a routine of adopting legislation, each year or periodically, to change the dollar amount on the basis of some measure of inflation, but no such regular revision would be assured. In most programs the legislature does not set a funding level in law. Such a level of detail on capital programs is usually left to the Governor or agency head making the request and is often based in part on fund availability and priorities. One method of averting the need to address the appropriate dollar amount continually would be the inclusion of a statement in the initial legislation to the effect that an inflationary factor would be automatically applied in subsequent years, based on an approved schedule. However, the state does not recognize inflation in most other programs.

If the maximum entitlement level is defined as a percentage of total statewide need, the percentage could be fixed in law for several years until changed by the General Assembly. However, changing such a law could be difficult and may not be accomplished in a timely

manner for funding. The percentage could be permitted to fluctuate as the total statewide need changes, but if such an approach is taken, then the law should designate who (Governor, State Board of Education, etc.) is responsible for adjusting the percentage. The percentage selected should weigh factors such as anticipated future growth, projected state fund availability, local funding capability and the speed with which the state and local officials desire to meet current unmet need.

The possibility always exists that the Governor and General Assembly may opt for significant changes in the method of funding the formula for operation of public schools, and these changes could have an impact on capital outlay needs. Such amendments may not be predictable well in advance; thus, a special appropriation outside the Capital Outlay Program formula may be warranted. If so, the funds may or may not be allocated on the same basis as the current need-based distribution of earned entitlements. The dollars for such special projects could be drawn entirely from state funds, or a local funding requirement could be imposed (using either the same percentage basis as is used for the regular capital outlay formula or some other method).

Alternatives for Calculation of Local Wealth

- Make no change from the existing formula for determining local wealth.
- Retain property wealth per student as the sole determinant of local wealth as used in the regular entitlement program, but with adjustments to the data used in the calculation (to correspond to the wealth measure used in the QBE formula for school operation.
- Substitute sales tax wealth per student for property wealth per student as the measure of local wealth (expressed as yield per student from a one-percent local sales tax).
- Retain property wealth as the primary local wealth variable, but apply an adjustment (upward or downward) to account for relative sales tax wealth.
- Implement a new wealth formula that is based on revenue potential from both sales and property tax.

Discussion

Property wealth per student is the most widely used definition of local wealth in school funding formulas in states that have provisions for required local effort in their funding formulas. This phenomenon is explained by the fact that the property tax is the major source of local tax revenue to support education, and in many states it is the only major source. There has been broad acceptance in state school finance structures that the local wealth should reflect the taxing ability of local boards of education; therefore it should be based on the relative ability to collect taxes from the source that is available.

The property tax is no longer the only major tax revenue source available to local school systems for capital outlay purposes. The substantial majority of local revenue collected since 1998 has been raised by one-percent special purpose local option sales taxes (SPLOST). This trend will continue for several years, and if the recent preference for sales tax referenda over property tax-paid bond referenda continues, it is likely that reliance on the sales tax for financing most school facilities will continue for the foreseeable future. Of the 180 school systems in Georgia, voters in 160 systems have approved SPLOSTs since March of 1997. During that same time, only nine systems have held bond referenda involving property tax financing of bond debt. Bonds were being retired using property taxes in 54 schools systems in fiscal year 2000; the count is declining annually.

Since school systems have access to both property and sales taxes, options are available to create a wealth measure that takes into account the ability to raise revenue from both sources. The formula could weight one type of tax source more heavily than the other, if desired. The wealth measure could be an expression of the relative annual yield per student from both sources, based on a one-percent sales tax and the amount of property tax that could be generated from a specified millage rate. (Selection of the rate would, necessarily, be arbitrary.)

There is a tendency for counties that have relatively high property wealth to also have above-average sales tax wealth. However, there is not a perfect correlation; some counties have stronger property tax wealth than sales tax wealth, or vice-versa. The use of only one wealth measure could be inappropriately advantageous or disadvantageous for these counties.

A few states include a measure of personal income wealth in their formula for local taxing ability. Georgia has never used a personal income measure in its core funding formula for operation of public schools, nor did it do so in its Capital Outlay Program until the passage of the low-wealth formula in 1999. The low-wealth formula stipulates that to be eligible for funding, a school system cannot have per-capita income wealth that exceeds 75 percent of the state average. No local income tax is authorized in Georgia. The rationale for including an income wealth measure is based on the presumption that relative personal income has an impact on the ability of individuals to pay property taxes. Income wealth data are limited by the fact that they are derived from the U.S. Census, held only at ten-year intervals. All other income data sources involve estimates.

If any measure of property wealth is retained in the definition of local taxing ability, a case could be made that -- absent an argument to the contrary -- the individual data elements should match those used in the local wealth measure specified for use in the QBE Act for calculation of equalization grants. For example, consideration could be given to using the same weighted FTE count instead of the unweighted count that has been used in the past to calculate the local ability ratio for capital outlay purposes. If a school system has an above-average concentration of students in high-weighted programs, it may have a need for more classroom space to house students in small classes.

The current differentiation in student count data may be warranted if resident FTE counts are considered the most appropriate enrollment figures to use for capital outlay purposes. Furthermore, a student count that represents the usual period of peak enrollment (i.e., the fall FTE count) may be deemed the most valid count for use in determining school facility needs. If so, it may also be the most appropriate count used in the wealth measure.

Alternatives for Application of the Local Wealth Measure in the Capital Outlay Formula

- Retain the upper and lower limits of 25 percent and 10 percent, respectively, for determining the required local portion of projects that qualify for state funding.

- Extend the upper and lower limits (for example, to 50 percent and 5 percent, respectively), for determining the required local portion of projects that qualify for state funding.

- Use the calculation of local ability ratios, with no upper or lower limits, for required local effort.

- Determine each school system's local five mill share as a percentage of its QBE formula earnings, and apply the same percentage as the required local portion of projects that qualify for state funding in the Capital Outlay Program.

Discussion

The core QBE funding formula originally established a ceiling of 50 percent on required local effort or "local five mill share" (then called "local fair share"). No floor was ever established, and a 1991 amendment to the QBE Act removed the 50-percent cap. Only the two property-wealthiest school systems in the state were affected by the change. The required local share was increased in those two systems, and as a result, the same rate of five effective mills became necessary to raise required local effort in all systems in the state.

The imposition of minimum and maximum percentages for required local participation in state-financed capital outlay projects causes the local ability ratio for some systems to be modified from the percentage that would result from application of the same formula to all systems. The effect is a reduction in required local funds in the property-wealthiest school systems, and an increase in required local funds in the property-poorest systems. Of the 49 systems that are capped by the 25-percent limit at present, the wealthiest system is able to raise over 2.5 times the property tax revenue per student than the system ranking 49th. Yet both systems have the same percentage of required local funds for each qualified facility project.

If sales tax wealth is determined to be appropriate for inclusion in the wealth measure, local ability ratios will change. The effect of the change could increase or decrease the number of systems that would fall outside the 10- and 25-percent limits. Use of each system's local five mill share as a percentage of QBE formula earnings in the determination of required local effort in the Capital Outlay Program would only be a viable alternative if the decision is made not to include sales tax wealth in the capital outlay formula.

Alternatives for addressing the needs of low-wealth systems are addressed in a subsequent section. It should be recognized here, however, that the existing 10-percent floor for required local participation creates an additional local burden for the property-poorest systems.

If the decision is made that the percentage of required local funds should no longer be reduced by additional local funding, school systems may need to be afforded a period of time to adjust to this change. Most systems have already determined the purpose for which SPLOST revenues will be spent, and systems cannot depart from the purposes that were stated in SPLOST referendum language. Therefore, until future SPLOST or bond referenda are held, these systems may have difficulty in identifying local dollars to be committed as the local share of state-financed projects.

Alternatives for Application of Additional Local Funding in the Determination of Required Local Funds for Projects that Qualify for State Funding

- Make no change in the current provision that permits the percentage of required local funds to be reduced, to a floor of 10 percent, for projects that qualify for state funding, based on bond debt service credit or other additional local funding for projects that do not receive state funding.

- Repeal the provision that permits the percentage of required local funds to be reduced (to a floor of 10 percent) for projects that qualify for state funding, based on bond debt service credit or other additional local funding for projects that do not receive state funding. Provide a treatment in the formula that takes additional local funding into account in the apportionment of state Capital Outlay Program funds, but do not tie the treatment to local wealth. (See alternatives for defining need in the next section of this paper.)

- Continue to permit the percentage of required local funds to be reduced for projects that qualify for state funding, based on bond debt service credit or other additional local funding for projects that do not receive state funding, but on a revised schedule.

- Impose limits on the amount of additional local funds that may be used to impact the amount of state dollars which are earned for projects that are eligible for participation in the state Capital Outlay Program. Such limits could apply to local funds expended for projects that exceed a specified amount per square foot.

Discussion

Wealth and need are intertwined in the current provision of law, which has the effect of creating a uniform local ability ratio virtually statewide. School systems that utilize additional local revenue to construct facilities outside the state Capital Outlay Program may apply some of those local expenditures as if the dollars had been required local funds for projects that earn state funds. The result is that the required local percentage for participation in state supported projects is reduced in most systems, and the reduction is greatest in the wealthiest systems. Facility projects involving the exclusive use of local funds have been so extensive that all systems except one have been able to reduce their local ability ratio to 10 percent.

Many, but certainly not all, of the most rapidly growing school systems also have property wealth that is well above the state average. Systems with significant growth typically finance a larger proportion of their capital outlay needs with local funds, often including numerous projects that involve no state funds. This fact is offered in support of the reduction in the percentage of required local funds for projects that are included in the state Capital Outlay Program.

For some systems, however, a problem arises from the fact that property wealth and growth are not perfectly correlated. A very wealthy system (one that would have a local ability ratio in excess of 25 percent if no upper limit existed) may have only modest enrollment growth, but it may have financed a renovation or replacement project with local dollars. By doing so, the system is able to reduce its local ability ratio to 10 percent, to be applied to the next project for which it receives state funds.

Conversely, a property-poor system may be experiencing a higher rate of enrollment growth, but its local ability ratio is already at the 10-percent floor (without consideration of any bond debt service credit or other locally financed project). This system experiences greater difficulty in obtaining local revenue -- either to finance projects locally or for the required local portion of state-supported projects -- yet it is unable use additional local revenue to reduce its local ability ratio.

Consideration could be given to distinguishing between need and wealth in the capital outlay formula. In this manner, the percentage of required local funds could become an accurate reflection of relative local wealth. Under such a scenario, expenditures for locally-funded projects could still be used in determining need, and thereby could act to leverage additional state dollars for other projects to resolve unmet needs, but the percentage of required local funds for each project would be based solely on the system's defined wealth.

The state may wish to allow expenditures for locally financed projects to earn credit for future state-supported projects only to the extent that the locally-financed projects do not exceed a specified cost per student or cost per square foot. Such a policy would place a limitation on a system's ability to continue to earn state funds for unmet needs when excessive amounts of local funds were spent on a particular project.

Alternatives for Defining Need

(Note: Assessment of need is not a primary focus of this paper. However, the manner in which need is defined and applied in the capital outlay formula has a major impact on other decisions about state funding for facilities. The current process for assessing need is described more thoroughly in other papers prepared for the GERSC and its committee on school facilities.)

- Make no change in the existing formula for determining need and allocating funds based on need.

- Re-define need so as to assign a higher priority to unhoused students in the formula for prioritization of state-supported projects and allocation of state funds.

- Provide a growth factor in the regular capital outlay formula so as to assign a higher priority to systems experiencing rapid growth for prioritization of state-supported projects and allocation of state funds.

- Provide a mechanism by which local bond debt service credit (and/or other additional local funding for projects that do not receive state funding) may be used to elevate the priority of a system's projects that qualify to receive state funds through the capital outlay formula.

- Revise the definition of base size schools, so as to provide for the full complement of auxiliary space needs in schools with fewer classrooms.

- Revise the formula for earning instructional units (regular classrooms) so as to decrease the number of students per class in one or more QBE program categories.

- Revise the formula for earning instructional units so as to increase or decrease the number of auxiliary classrooms identified as being needed in base-size schools.

Discussion

Several school systems have experienced such rapid growth in enrollment that they have hundreds -- even thousands -- of students attending classes in portable classrooms. In 1994, when the Georgia General Assembly adopted the exceptional growth capital outlay entitlement program, it recognized that the existing regular entitlement program was not reducing the number of unhoused students. At that time, the legislature had the opportunity to increase significantly the annual entitlement level in the regular Capital Outlay Program. Instead, the second program was created because it was felt that merely increasing the regular entitlement level would not target enough funds for rapidly growing schools.

The manner in which need is defined has an important bearing on whether separate entitlement programs are necessary. It is conceivable that a definition of need could be

developed which places greater emphasis on unhoused students, enrollment growth, or both. Such a plan for prioritizing need could channel a higher proportion of available state funds to systems with the highest concentrations of students in temporary classrooms, or to systems with growth rates that would cause the number or percentage of such students to increase in the near future.

If existing bond debt service and/or the presence of new construction projects are proxies for high levels of need, then such additional local funds could be used to increase the number or priority of new projects qualifying for state funding, or both. Caution should be exercised in adopting this approach, however, for two reasons. First, a system's enrollment may have reached a plateau, and it may no longer have needs that are as extensive as when the system was committing additional local funds to "catch up." In this situation, it would be inappropriate to increase the priority of a new project, because either the growth rate or the number of unhoused students may be greatly reduced from the earlier level.

In a second situation involving very different local circumstances, a school system's lack of additional local funding may not be an accurate indication of its real need, and may mask needs that the system is unable to fulfill. The system may have a relatively high proportion of students in temporary or substandard classrooms. However, if its local taxing ability is so meager that it is unable to raise the funds to initiate the project locally, the lack of additional local funding could cause the system to be unable to qualify for a higher priority in the state program.

There is strong evidence that the impact bond debt service credit will have a sharply reduced influence on the defined amount of local need in future years. Short-term bond debt (paid with SPLOST revenue) cannot be used in the definition of unmet need. As more school systems use SPLOST receipts to retire previously-issued long-term bond debt, and as very few systems seek new approval of bonds to be financed with property taxes, such bond debt will become a lesser factor in the calculation of need.

It is difficult to state objectively whether the presence of significant unfulfilled need in a school system is an indication that the identification of "need" should be revised, the level of state fiscal support needs to be increased, or the level of local support is lacking. This question must be addressed in the context of deliberations on whether to increase the entitlement level of the regular Capital Outlay Program and discontinue the exceptional growth program, as opposed to maintaining either a separate exceptional growth program or adding a factor to the regular program to steer larger concentrations of funds to systems with high growth rates and high numbers of students in portable classrooms.

The issue becomes even more critical when considered together with the needs of low-wealth systems (discussed further in the next subsection). If: (1) wealth is redefined, or (2) need is redefined, or (3) the treatment of additional local funds for capital projects in the formula is changed -- but the level of total state capital outlay funding is kept at the current level -- then an enhancement for one group of systems is likely to be accomplished at the expense of another group of systems. Low-wealth systems could find themselves in a more

advantageous situation at the expense of systems with the greatest enrollment increases, or the reverse could be true.

When need is redefined as a result of changes in physical space requirements, changes in the desired number of students per class, and/or the creation or termination of new programs, all school systems are affected. Such changes may warrant special "one-time" allocations by the state. The reduction in maximum class size legislated as part of the A-Plus Education Reform Act of 2000 is an example of a change which creates additional need -- one which is proposed to be addressed with a special one-time appropriation. When such an event occurs, care should be taken to avoid implementing the special allocation in isolation from the implementation of ongoing capital outlay programs. The manner in which such a special appropriation is distributed to school systems has an impact on, and is impacted by, other state and local funding. To the extent that special allocations can be accomplished as a function of the state's Capital Outlay Program, or in concert with it, an effort to do so is advisable.

The passage of SPLOST referenda in almost 90 percent of local school systems has contributed to a situation in which the Georgia Department of Education is less able to assess accurately the precise current construction needs of systems. Particularly where five-year plans are three or four years old, the projects approved in the SPLOST referenda may have changed the status of local plans – and of local needs – considerably. A comprehensive facilities data system may help in resolving this shortcoming, by making it possible to secure more accurate annual updates to five-year plans.

Alternatives for Addressing the Needs of Low-Wealth School Systems

- Eliminate the "sunset" provision on the current low-wealth capital outlay formula; continue the program without change.

- Permit the current low-wealth capital outlay formula to terminate on July 1, 2002; provide no factor for low-wealth other than a continuation of the variable percentage of required local funds for participation in state-funding projects.

- Permit the current low-wealth capital outlay formula to terminate on July 1, 2002; implement a schedule that provides for a reduction in the percentage of required local funds for low-wealth school systems for participation in state-funded projects.

- Provide a factor in the formula that provides for further state funding of projects in low-wealth systems that are currently involved in repayment of advance funding, if the amount of available local sales and/or property taxes are insufficient to cover the cost of needed projects.

- Incorporate features of the current low-wealth capital outlay formula into the regular entitlement program so as to assign a higher priority to projects in low-wealth systems in the formula for prioritization of state-supported projects and allocation of state funds.

(Eligibility for such higher priority could include some or all of the eligibility requirements in the current low-wealth formula.)

Discussion

Several important concepts regarding low-wealth school systems have already been discussed in earlier subsections. Attention should be directed to the fact that the selection of alternatives identified earlier in this paper will also have an impact on low-wealth systems. For example, the expansion or termination of upper and lower limits on local ability ratios would result in a greater concentration of available state funds to be targeted to lower-wealth systems, but only if additional local funds cannot be used to enable other systems to have their local ability ratios reduced to a uniform percentage.
The existing low-wealth formula was adopted in isolation from a comprehensive review of the state's Capital Outlay Program. It is possible that if such an overall review had taken place, it would have resulted in the identification of methods for adequately addressing the needs of low-wealth systems, thereby precluding the need for a separate formula.

Questions have been raised about the relationship between low-wealth formula funding and required local effort, existing entitlements, and the status of advance funding. To resolve these issues, it is essential to consider whether wealth is being adequately addressed in the regular Capital Outlay Program (and in the exceptional growth program, if it is retained as a separate program).

Advance funding of projects in small, low-wealth systems may place a system in a position where it is shut out of participation in any further state funding for many years. When this occurs, if additional needs still exist, the calculation of wealth becomes a moot issue. The system cannot receive state support regardless of how wealth is determined, and the local tax base may be insufficient to complete a project without help from the state. Therefore, the relationship between the advance funding mechanism and any treatment of low wealth in the state Capital Outlay Program may become critical in addressing the needs of low-wealth systems.

If the existing low-wealth program is ended as scheduled in 2002, the state may wish to consider retaining one feature of the formula in its broader examination of the entire Capital Outlay Program. To be eligible for low-wealth program funding, the state requires a school system to demonstrate two measures of local financial effort. Voters must have approved either a bond referendum or SPLOST (or both), and collections of the local tax must still be in progress. Also, an operating millage rate of at least 12 mills must be in effect. The rationale for these provisions is based on the tenet that the school system must be accessing what little taxable wealth is has before the state should be asked to provide further assistance.

Alternatives for Re-organization of the State Capital Outlay Program

- Retain the existing program and its several distinct formulas without change.

- Eliminate all formulas except the regular entitlement program; increase the entitlement level for the regular program.

- Eliminate all formulas except the regular entitlement program; also establish separate, non-formula-driven allocations annually or periodically as necessary to meet needs caused by exceptional growth, low-wealth, revision in the core funding formula for school operation, or other special circumstances.

- Consolidate all formulas into a single entitlement program; implement a formula that includes factors for exceptional growth, unhoused students, low wealth, and/or advance funding.

- Retain certain current special-purpose formulas but eliminate others.

- Provide revised criteria for renovations and modifications in the Capital Outlay Program.

Discussion

The presence of several different formulas for state funding of school facilities is symptomatic of the fact that a comprehensive examination of the overall Capital Outlay Program has not taken place for many years. A closer examination, however, reveals that several of the functions are not disjointed programs functioning in isolation from the others. The advance funding program, merger program, and the former advance incentive funding program were arms of the regular Capital Outlay Program, rather than fully separate or conflicting plans. Even the exceptional growth program, despite having a separate entitlement formula, functions in many ways in synchronization with the regular program.

The principal question that must be asked when considering a re-organization of the Georgia Capital Outlay Program is whether a single formula can continue to address the needs of groups of school systems that were targeted by legislative acts creating the exceptional growth and low-wealth programs. If it is possible to develop a formula that is flexible enough to accommodate the needs of these groups of systems, then such a re-organization is likely to be in the best interest of all systems. If, however, it is determined that the needs of growing systems, systems with large numbers of unhoused students, and systems with little local taxing ability cannot be addressed without separate formulas, then the presence of multiple formulas should not be regarded as a negative feature of the state's attempt to provide adequate facilities for all students.

The advance incentive funding program has already terminated; unless the state wishes to reinstate it, the language could be struck in a "housekeeping" review of the Capital Outlay Program statute. The state also needs to consider whether it wishes to modify its stance on school consolidation, and if so, changes may be in order for the merger/consolidation feature of the formula.

Renovations and modifications may need to be treated differently in the formula. Maintaining existing buildings, and modifying them as teaching methods and technologies change, may necessitate a greater priority, especially for systems experiencing little or no growth and systems with higher concentrations of older buildings. If renovation and modification can help meet educational objectives at a lower cost, then it should be encouraged. If, however, a second renovation of a building is expected to cost more than the cost of building a new school, the state will need to consider whether it is willing to participate financially in the project.

Alternatives for Inclusion or Exclusion of Specific Costs in the State Capital Outlay Program

Specific cost items that are not included in the state program at present are as follows.

- Land acquisition (including access)
- Site preparation (including utilities)
- Non-fixed furnishings and equipment
- Instructional space for pre-kindergarten and pre-kindergarten handicapped programs
- Instructional space for federal programs
- Instructional space for pull-out programs (e.g., remedial, early intervention, gifted, in-school suspension, special education)
- Space for art, music, or physical education programs (as identified in the QBE Act)
- Alternative schools and space for alternative programs in regular schools

Discussion

Many of the above components of facility costs or special programs have been excluded from eligibility from state funding because (1) they were programs or services that were not present in many school systems, (2) great variation existed in costs among different geographic areas of the state, or (3) it was state policy that provision of the program was a local determination, and therefore should be financed locally. Perhaps most importantly, however, the state recognized that it did not have the financial capacity to meet all the needs that were eligible for state support. Therefore, to extend state funding to additional costs or programs would dilute dollars that would be available for basic facility projects.

Land acquisition costs vary tremendously between urban, suburban, and rural areas. Unless an appropriate regional cost differential factor could be identified to justify allocating different

amounts per acre to systems in different geographic areas, it would not be possible to fund an amount per acre for land acquisition that would be acceptable statewide. An amount that is viable for urban areas would be excessive in most rural areas, and an amount that would be appropriate for rural areas would cover only a small fraction of the cost in urban areas.

It may be cost-effective for the state to assume some responsibility for funding construction management services, using state staff or personnel retained through contract. Particularly with regard to small systems, the provision of this service could pay for itself in reduced project costs, operating costs, and extended life of facilities.

Alternative school programs were not funded by the state at the time that the Capital Outlay Program was developed. As an integral part of the QBE formula at present, alternative school facilities may warrant new consideration for inclusion in the definition of school system facility needs. Additionally, as other special programs are implemented and funded by the state, there should be a parallel consideration of whether adequate space for the programs is made possible by the existing Capital Outlay Program formula. If not, a revision in the definition of needed instructional units may be in order.

Other Alternatives that Merit Further Consideration

- Alternatives for possible treatment of federal capital outlay funds in the formula for distribution of state capital outlay dollars
    - Federal impact aid grants
    - Qualified Zone Academy Bonds (QZAB)
    - Other federal initiatives for financial support of school capital projects
- Alternatives for modification of the calculation of advance funding in the Georgia Capital Outlay Program
- Alternatives for re-instatement of the Georgia Education Authority program of bond-financing for local school construction
    - The Authority could act as a mechanism for helping lower wealth systems with financing rates and/or consolidating purchasing among systems to lower costs.
    - The Authority could be a means of financing the local share of construction costs.

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